

International Trade Report

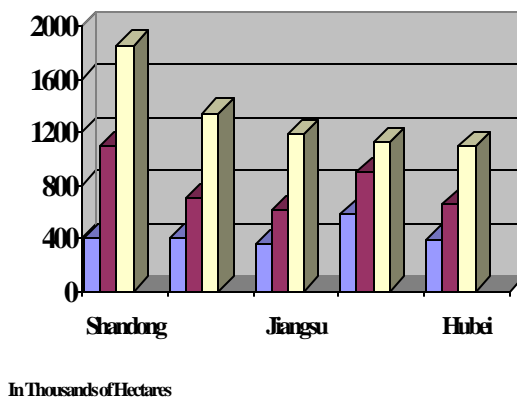
December 20, 2002

CHINA IS PLAYING A GROWING ROLE IN GLOBAL VEGETABLE TRADE

Summary

With Chinese grain production no longer under widespread government protection, many Chinese farmers are looking to farm high-value commodities that are more profitable. In particular, farmers are exploiting their comparative advantage in producing more of those commodities that are labor-intensive such as vegetables. Through foreign direct investment that is flowing into the agricultural sector to areas of special economic status (SEZs), production agriculture for vegetables is rapidly changing. High-quality imported seed, agricultural chemicals, equipment, and greenhouse technology have moved China a step closer to becoming a major producer of export-quality vegetables.

**China Vegetable Acreage by Province
1991, 1996 & 2001**



The primary concerns for the U.S. vegetable industry are its third country markets, in particular Japan, who has historically been a major importer of U.S. vegetables. Although China is making progress in its production capability, it is likely that China's domestic demand will absorb the majority of its growing production capacity. In addition, phytosanitary, infrastructure, and productivity issues continue to be a barrier for China's production of vegetables. U.S. vegetable exports to China, while currently diminishing, are still finding niche markets in increasingly cosmopolitan urban areas where the demand for higher-quality food is greater than ever.

Competition in Third-Country Markets

China has now claimed the former U.S. position as the number one supplier of fresh and frozen vegetables to Japan. China's geographical advantage over the U.S. allows fresh vegetables to arrive by ship from Qingdao, China to Kobe, Japan in 16 hours. The negative economic situation in Japan has also created an opportunity for Chinese suppliers. However, food safety scares involving Chinese goods have caused the Japanese to question the safety of Chinese foodstuffs. It is widely recognized that the application of agricultural chemicals is poorly regulated in China and that industrial pollutants are commonly detected in the soil, water, and air. In addition, recent trade disputes involving vegetables have left tensions between the two

countries and a climate ripe for phytosanitary concerns to be inflamed. One case involved Japan placing quotas on string onions, shiitake mushrooms, and grass for tatami mats, which China responded to with retaliatory tariffs.

Factors that Reduce Competitive Threat

- Chinese agriculture is still evolving from a communal system. Small plots of land are most prevalent, western style co-ops are still illegal in China, workers are unionized, and a socialist mindset has an impact on efficiency.
- China's soil is significantly depleted due to little crop rotation and heavy use of Agricultural chemicals.
- Water for irrigation is contaminated, calling into question the degree of safety of produce, in particular those row crops that grow close to the ground. This could lead to further phytosanitary or heavy chemical usage issues.
- Infrastructure is still greatly lacking. Controlled atmosphere technology is especially uncommon. This would include hydrocoolers and refrigerated transport, key links in the postharvest handling chain. The shelf life of produce without these technologies is limited.
- It is possible that domestic demand will absorb much of the vegetable production.

The Market for Imported Goods is Growing

- Economic and market liberalization, including the removal of import licensing, price controls and foreign exchange controls, have enhanced the possibilities for exports.
- The rapid urbanization of the population, in tandem with strong income growth, is causing the diversification of the Chinese diet and creating demands for high-value and specialty food products.

What is the Future for U.S. Vegetables in China?

PRO

- Demand for high-quality food has increased dramatically. Consumers are more concerned with safety, and organic or "green" produce is gaining popularity. China's one-child policy triggers parents to give their child the "best"; and to feed the child in the best possible way within their means.
- The popularity of western food is expanding. This expansion in western eating calls for western vegetables.
- The retail revolution means that U.S. vegetables are more easily sourced and carried at large chains such as Wal-Mart, Carrefour, and Metro. Government tax policies have become detrimental to wet markets and consequently their presence is decreasing.

- High-end supermarkets including Yao Han and Oliver's catering to expatriates and Chinese with higher-income levels are good niche-market opportunities for U.S. vegetables. Fresh-cut and specialty vegetables are selling well at this level.
- The growth of Hotel, Restaurant, and Institutional (HRI) opportunities in China is phenomenal, with overall national figures showing the sector doubling since 1998, with 15 percent average annual growth rates. More western food is being eaten outside the home, and the younger generation is already acclimated to western-style food. International tourism in China is expanding, which means hotels are looking for quality suppliers of western vegetables; often including high-value, fresh cut produce.
- Home meal replacement, already growing in popularity in China, also creates opportunities for US bulk and fresh-cut vegetables.

CON

- U.S. Vegetables are rarely price competitive, particularly due to the labor cost disparity with China. U.S. vegetables must be differentiated by their uniqueness and quality.
- The import path for vegetables in China is still complicated. Exporters must deal with import license holders only. This is often considered as a non-tariff barrier.
- Receiving payment may be an issue. Vegetable exporters usually request 50 percent payment upon shipment and the remaining amount is received if the product quality meets the buyer's standards.

For more information, contact Elizabeth Mello at (202) 720-9903 or elizabeth.mello@usda.gov